

# Sending Money Home

## Remittances as a Development Tool in Latin America and the Caribbean

New York City  
June 6-8, 2005



Inter-American Development Bank  
Multilateral Investment Fund



# The Multilateral Investment Fund

## Origin and Mission

The MIF was created in 1992 with the goal of promoting and strengthening the private sector in LAC.

The MIF provides grants for Technical Assistance in the following areas:

- Regulatory Framework for the private sector
- Human Resources Development
- Micro-SMES enhancement

MIF also invests in SMES through its investment Fund facility.



# Remittances as a Development Tool in LAC

- 1 Background on Remittances
- 2 Challenges Ahead and MIF Strategy
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- 4 New Areas for MIF Financing






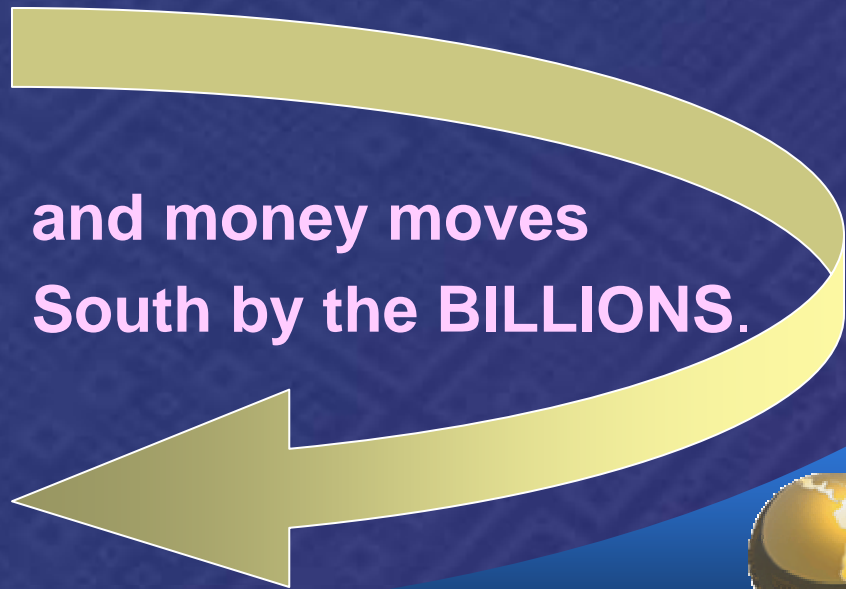
# Background - Migration Trends -

Remittances are the traditional financial support for families back in they home countries.

This phenomenon is generated by a movement of labor across borders that constitutes an international labor market in which



people move  
North by the MILLIONS



and money moves  
South by the BILLIONS.



# Background - Migration Trends -

## Migration Trends

The migration phenomenon does not only reflect migration on a North/South pattern but also movements both within the Region, and other parts of the world as well.

There are now significant communities of Bolivian migrants in Argentina, Nicaraguans migrants in Costa Rica, Guatemalans in Mexico, Peruvians in Chile, and Haitians in the Dominican Republic.



# Background - Migration Trends -

However, for the last two decades the preferred destination for the over-whelming majority of Latin American and Caribbean migrants has been North America, and in particular the United States.

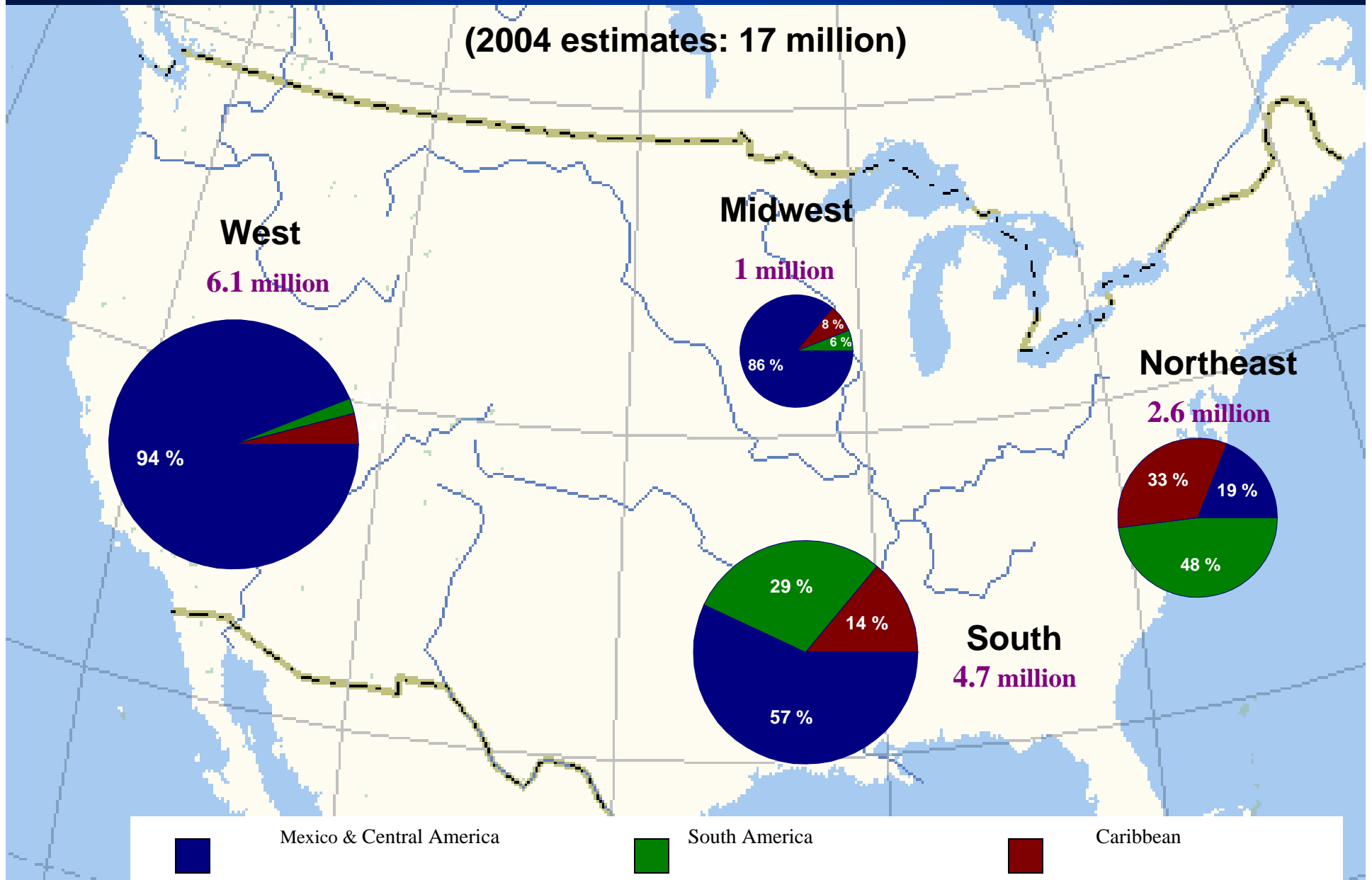
According to the 2000 U.S. Census, approximately 5% of the U.S. population (or some 14.47 million people) emigrated from LAC countries.

Recent estimates put LAC born population at about 17 million.



# LAC Foreign born Population: 14.7 millions (Census EE.UU. 2000)

(2004 estimates: 17 million)



# Background: Volume of Remittances

Remittances constitute a critical flow of foreign currency in Latin America and the Caribbean

The implications for national economies - and the corresponding multiplier effect on GDP, consumption and investment - are significant.

The remittance issue is becoming a major financial and development topic throughout the Region.





# Background: Volume of Remittances

Foreign workers sent at least \$200 billion to their countries of origin in 2004

\$120 billion through official channels - but unofficial channels account for significant volumes.

Major implications for national economies but little really known - it has been hidden in plain view



# Background: Volume of Remittances

LAC is both the fastest growing and highest volume remittance market in the world.

This is no cause for celebration, however. It means that the Region is not producing enough employment to meet the needs of its population.

As migration patterns increase and reporting mechanisms from central Banks improve, remittance flows to LAC for the year 2003 reached over

US\$45.8 billion from all parts of the world  
Implying 220 million transactions a year



# Background: Volume of Remittances

## Worker Remittances Flows to Latin America and the Caribbean

2001 → 2002 → 2003 → 2004





### Remittances by Selected LAC Countries

2004 (US\$ millions)



# Background: Volume of Remittances

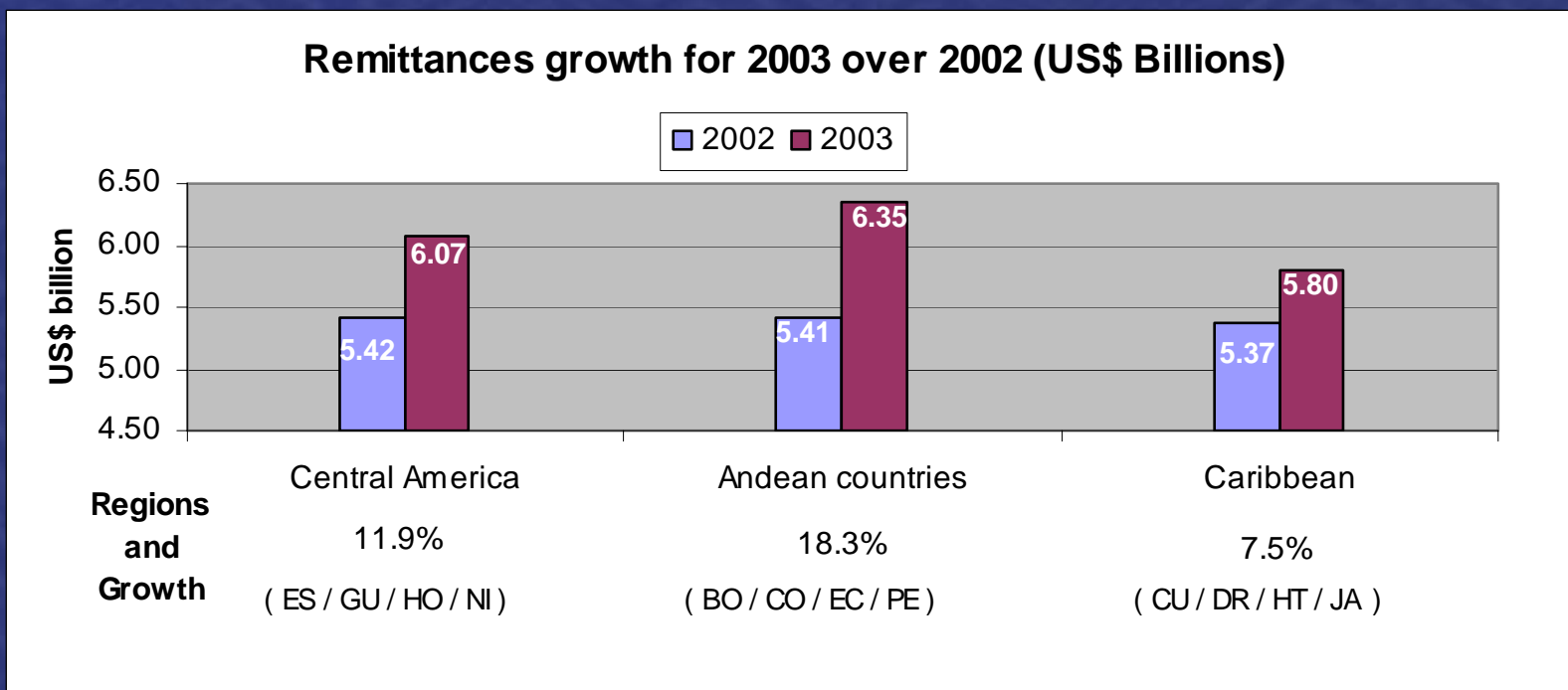
Comparative IDB studies of 19 LAC countries show that remittances:

- substantially exceed of Official Development Assistance (ODA) inflows to each country;
- equal more than 150% of the interest paid on the total LAC external debt during the past five years.
- account for at least 10% of gross domestic product (GDP) in six countries: Haiti, Nicaragua, El Salvador, Jamaica, the Dominican Republic, and Guyana.

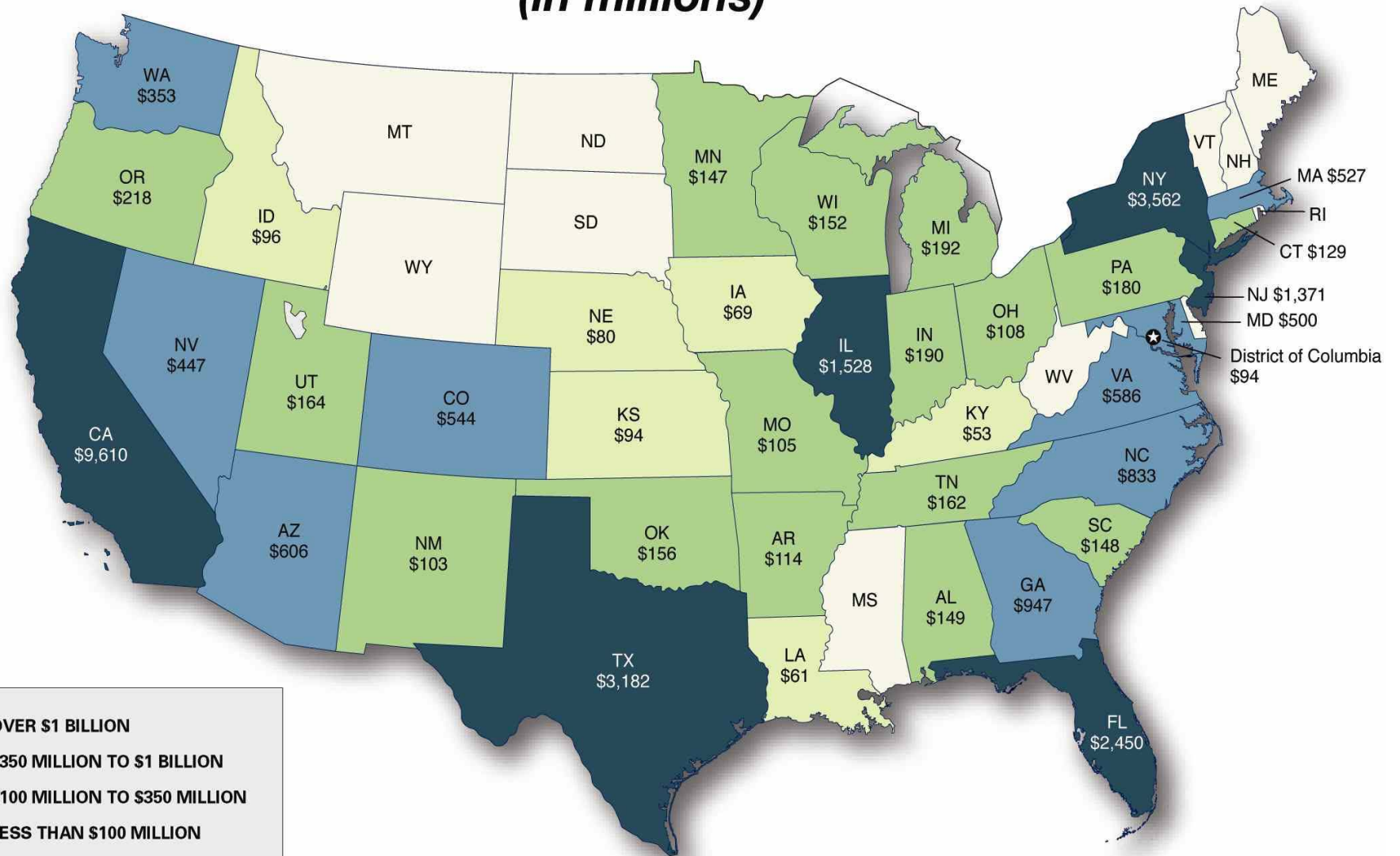


# Background: Volume of Remittances

Individual regions such as Central America, the Caribbean, and Andean countries all report consistent increases in remittances, which reflect the growing integration of labor markets between LAC and the rest of the world.



# Remittances to Latin America from the US—2004 (in millions)



# Background: Volume of Remittances

If migration patterns continue at current levels, the importance of remittances to the Region will also grow significantly.

At current growth rates, the projected cumulative remittances to Latin America and the Caribbean for the decade (2001-2010) will approach

US\$ 500 billion





# Background: Remittances Senders

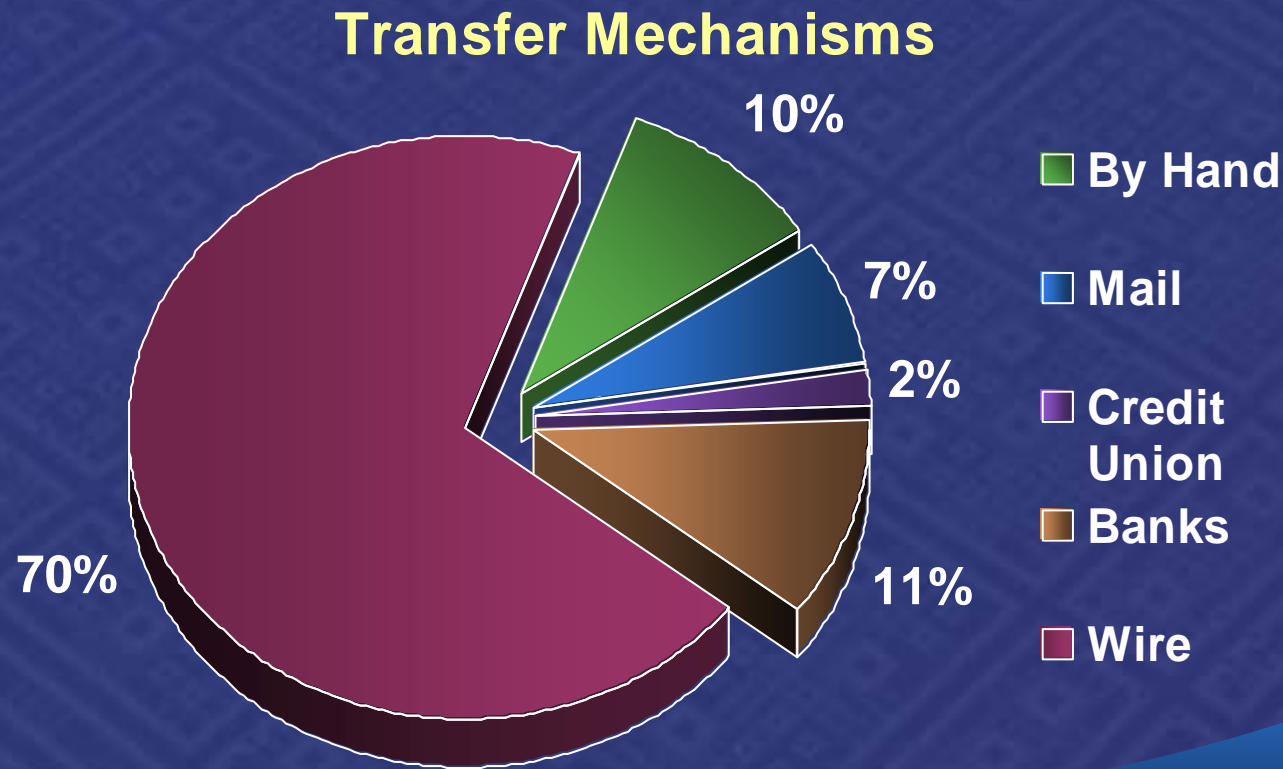
A 2004 MIF study found that over 60 percent of adult, foreign-born Latino people living in the U.S. send remittances regularly and about another 10% send remittances occasionally.

Two-thirds of remittance senders dispatch money at least once a month, and the most recently arrived (those in the United States less than five years) are the most frequent remitters with three-quarters sending money at least once a month. Most remitters dispatch between  
**\$200 and \$300 at a time.**



# Background: Transfer Mechanisms

Wire transfer companies such as Western Union or Money Gram remain by far the most common means of dispatching remittances with 70% of senders reporting that they use such firms.



# Background: Remittances Receivers

Extensive nationwide public opinion surveys showed that from a low of 14 percent in Ecuador to a high of 28 percent in El Salvador, significant portions of the adult population reported that they personally received remittances from a family member living abroad.

About half of remittance recipients earn between \$250 and \$500 a month while that segment makes up a little more than a quarter of the population.

In all of the surveys, clear majorities of remittance receivers said they used the funds to pay for common expenses such as food, housing and utilities.





# Background: International Transfer Operation



Remittance sender



MTC's Agent POS



MTC in Sending Country



MTC's bank



MTC: Money transfer company  
 POS: Point of sale  
 DA: Distributor Agent  
 (on receiving side)

TWO DATA CHANNELS

Data Channel

Settlement Channel



Data Transfer Report

Wire Transfer (Cash Amount)



Remittance recipient



MTC's Agent POS



MTC's rec. country Distributor Agent



DA's Bank





# Background: International Transfer Operations

Present

Near Future

Long Run



Cash  
To  
Cash

Cash  
To  
Account

Account  
To  
Cash

Account  
To  
Account



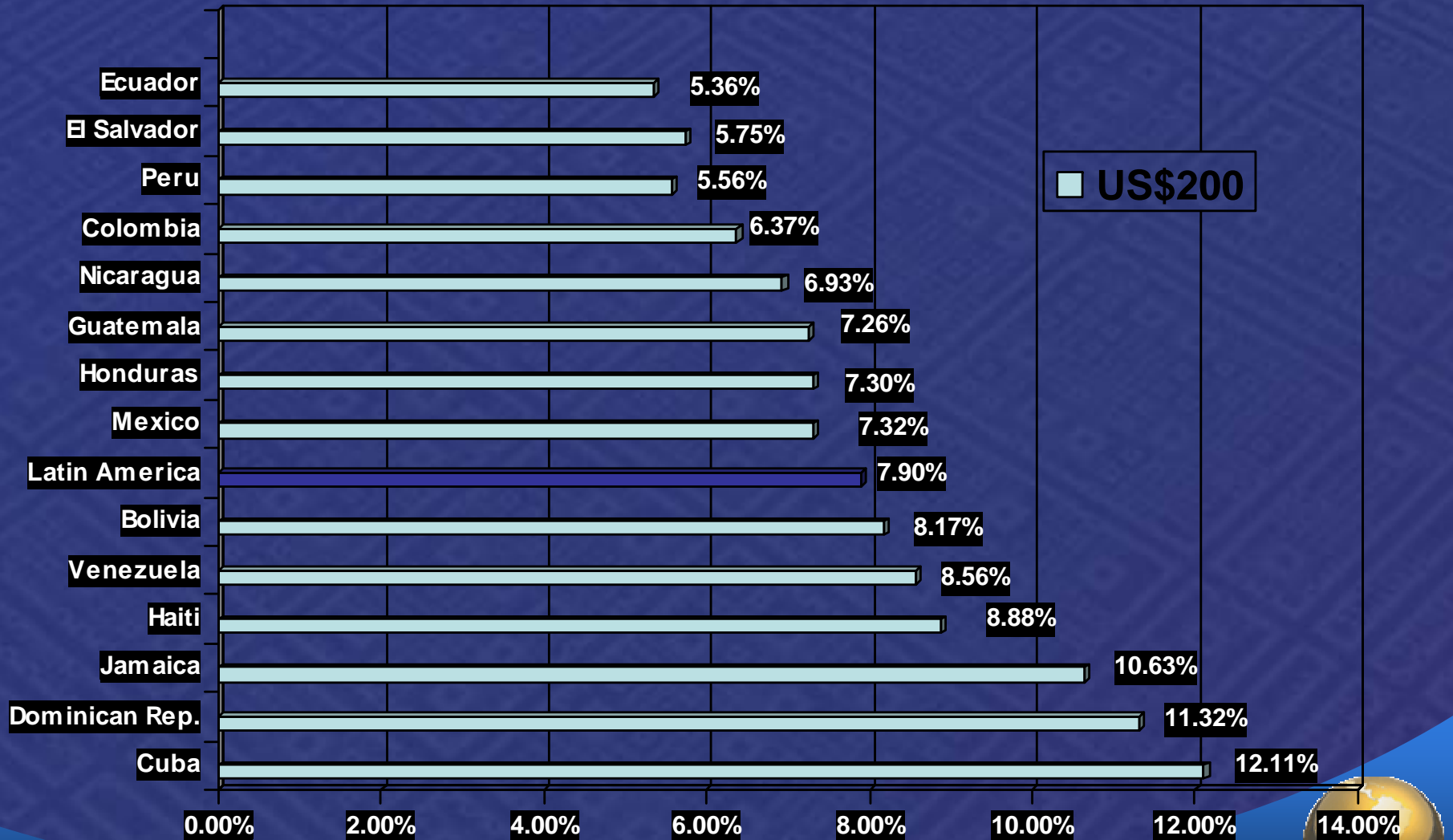
# Background: Cost of Transfer

- Until recently the remittances market in LAC countries was only composed by only a small amount of major institutions and several small players.
- Before 2000, the average cost of sending remittances to LAC was about 15% of the value of the transaction.
- This reflected a lack of:  
    transparency / maturity / and competition  
in the remittance transfer market in an era of electronic transfer of resources.



# Background: Cost of Transfer

Cost to send remittances to Latin America, February 2004



# Background: Cost of Transfer

- Nevertheless, in recent years, the remittance industry has become more transparent and competitive.
- As a result, transfer costs continue to decline. In February 2004, the average cost was 7.9 percent or \$16 for sending \$200.
- This reduced average, when compared with fees five years ago, is mostly due to the fact that charges have decreased with greater competition and use of technology.





# Background: Cost of Transfer

- Remitters to Mexico, El Salvador, and Guatemala charge lower fees than companies sending money to Jamaica and the Dominican Republic where competition is less robust or “controlled”.
- For other countries, like Cuba or Haiti, where market restrictions are even tighter, charges are generally the highest.



# Background: International Comparison

It is estimated that annual worldwide remittances may amount to **180 hundred billion dollars**, primarily sent from the industrial to the developing world.

Three significant findings were reported.

- Latin America is the region receiving the most remittances
- transfer costs are lowest when remittances are sent through regulated financial institutions, such as banks, credit cooperatives, and credit unions.
- the average cost of remitting to countries outside Latin America was cheaper than remitting to Latin America



# Background: Misconceptions

Remittances are not:

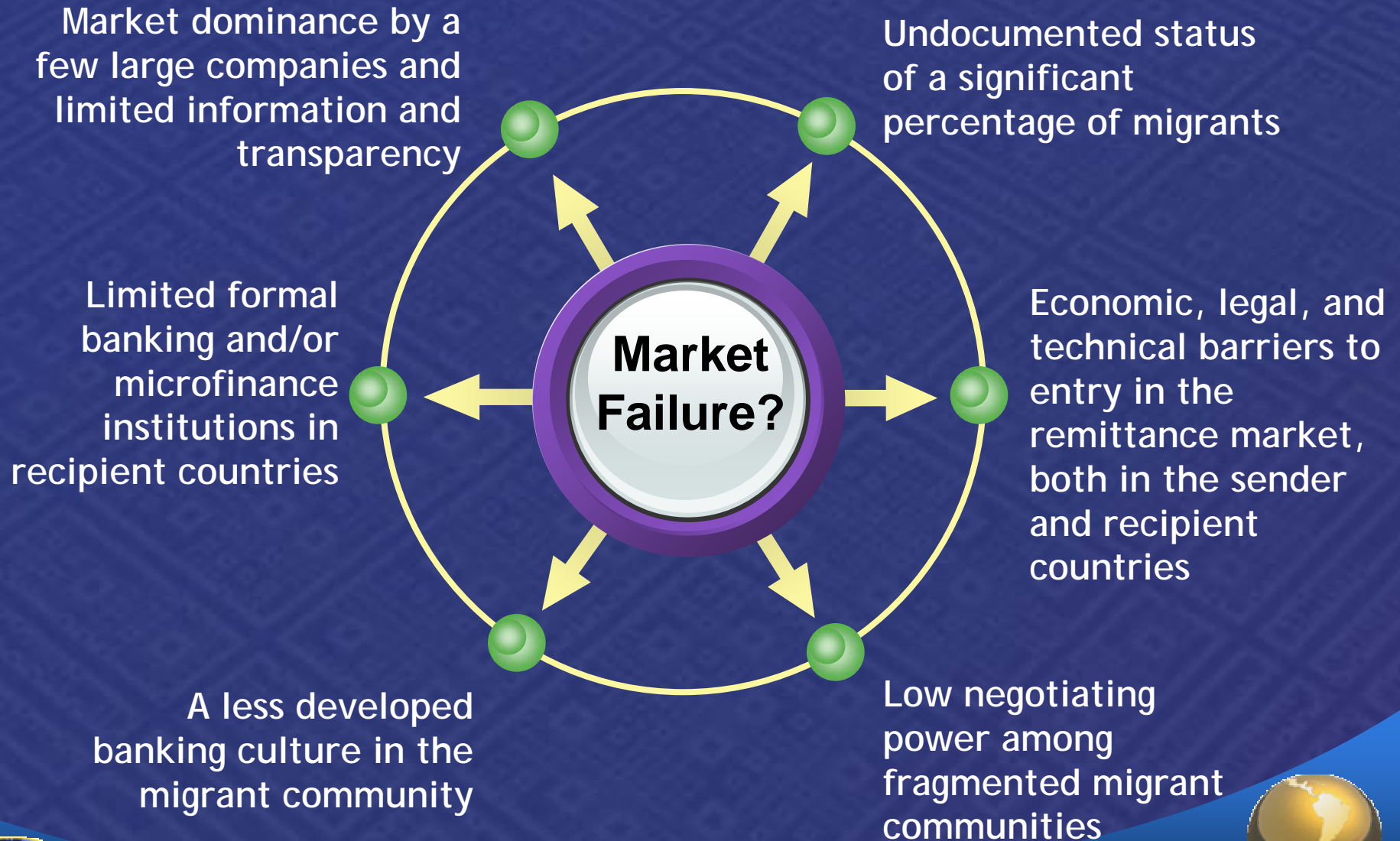
- a substitute for International Development Aid
- a substitute for Economic Development or Social Welfare Public Policies
- a preferred development model for a nation

Growth in Remittances is no cause for celebration

Remittances are not a development model – but rather a sign of the failure of development

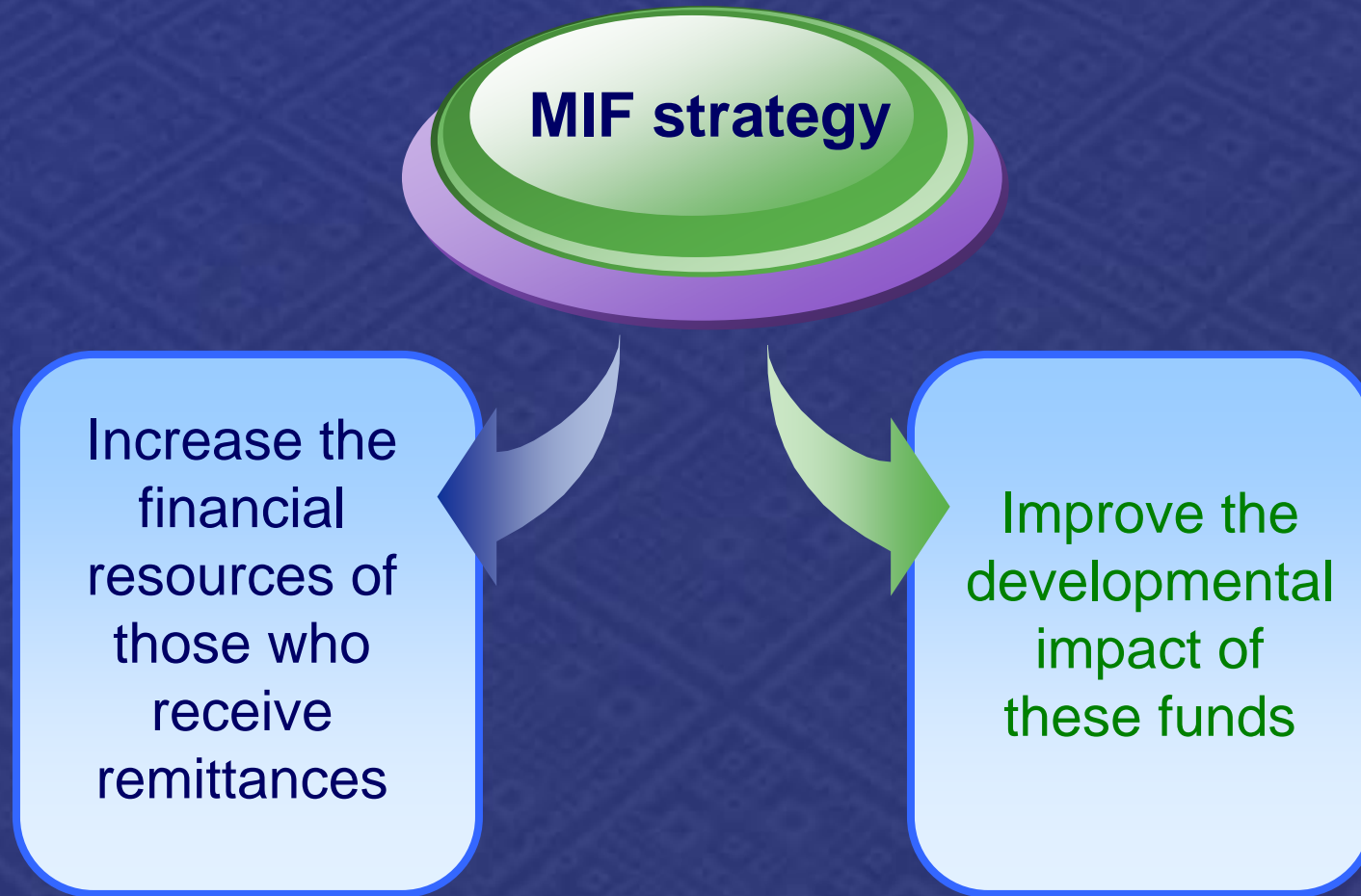


# Background: Market Context





# Challenges Ahead and MIF Strategy



To achieve these objectives the MIF is disseminating information and funding projects that:



# Challenges Ahead and MIF Strategy

In the coming years, IDB will work with a network of participating stakeholders to help reach two goals by 2010:

## MIF End Goals

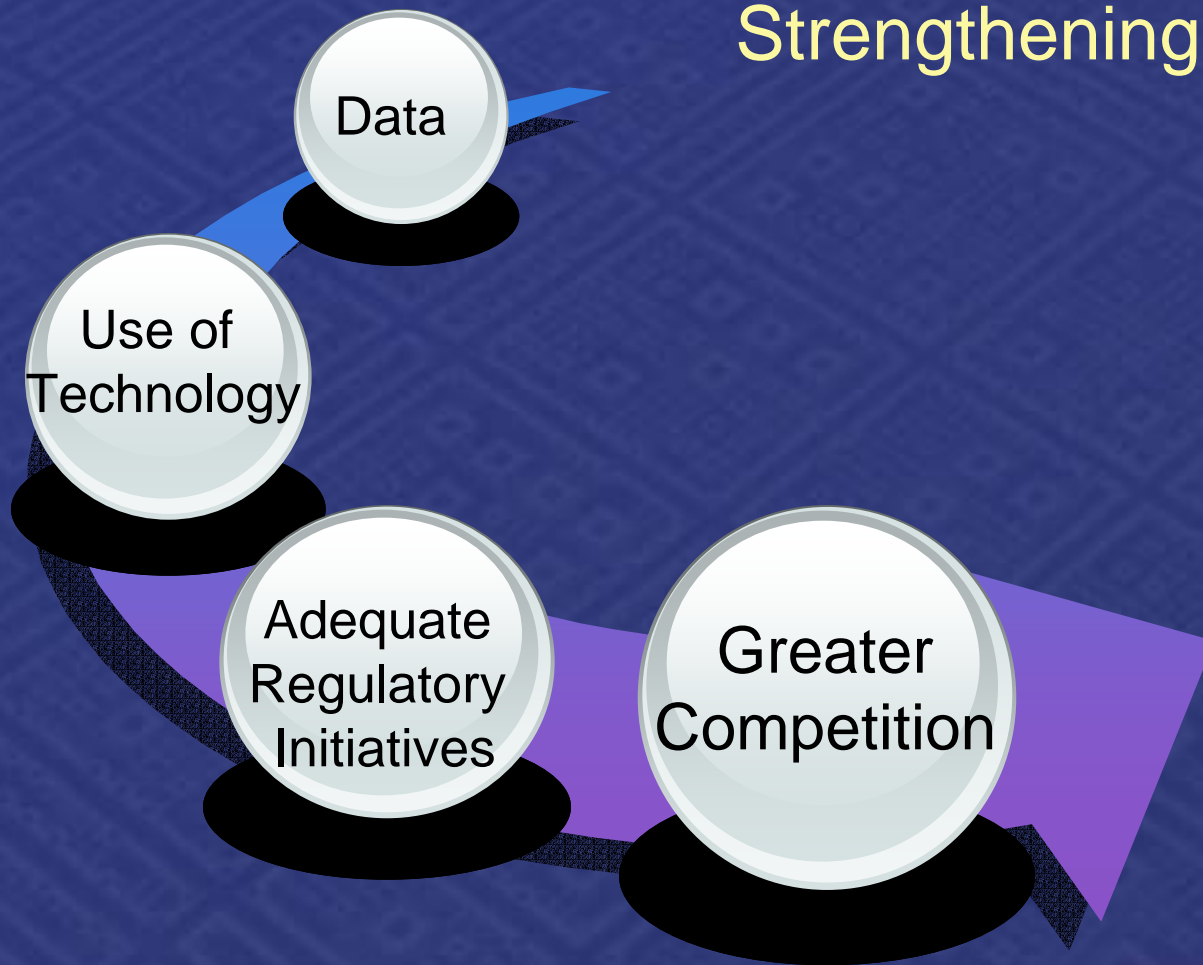
Reduce by 50% the average cost of LAC remittance market transactions by promoting increased competition

Increase to 50% the number of families receiving remittances through the financial system.



# Challenges Ahead and MIF Strategy

Strengthening the Market



A deeper and more efficient remittances market in the long run



# Challenges Ahead and MIF Strategy

reduce the costs of transferring remittances

increase and ease accessibility of transmission

mobilize savings through involvement of formal financial institutions

channel migrant capital into productive investment

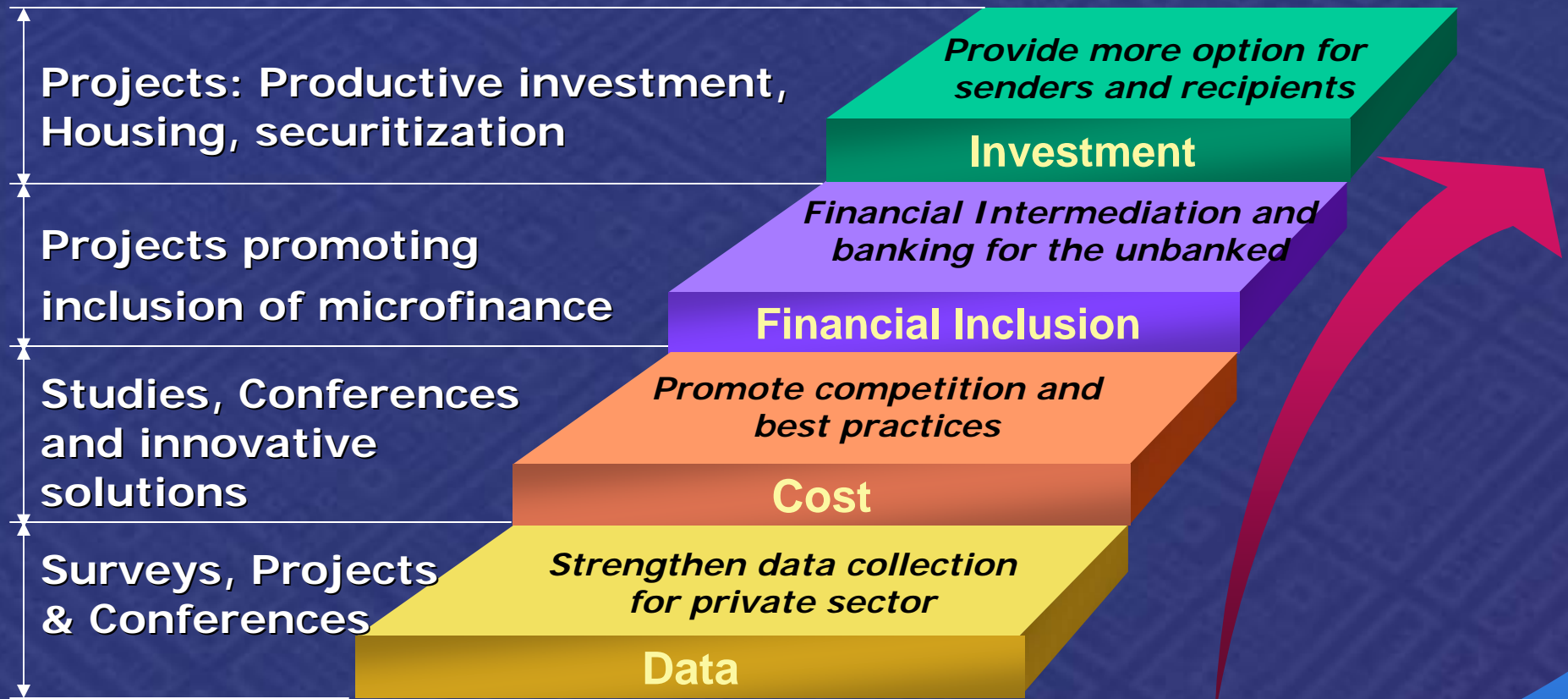
**Increase Financial Resources for Remittances Recipients**





# Challenges Ahead and MIF Strategy

## Levels of activities



# Challenges Ahead and MIF Strategy

Because of the recent growth of remittances to LAC, the MIF of the IDB began four years ago to commission studies, sponsor conferences, and finance projects in order to help:

1

**Document the increasing importance of remittances to the Region**

2

**Lower transaction costs by promoting competition, and encouraging innovative technologies;**

3

**Leverage the development impact of remittances, once received**



# Challenges Ahead and MIF Strategy

## Awareness and Dissemination

To date the MIF has commissioned and organized:

- **23 conferences** in both **Sending** ( *US, Japan, Europe (Spain, Belgium)*), and **Receiving countries** ( *EC, HO, GU, ES, ME, CO, BR, JA, DR, PE (Sep 05), BO (Oct 05), HA (Dec 05) and PA (May 06)*)
- **14 surveys** of both Remittances Senders and Receivers.
- **10 studies** on remittances, including: market environment, regulatory framework, migrant diasporas.

**MIF has also worked in conjunction with Market stakeholders to elaborate its Remittances Core Principles**



# Challenges Ahead and MIF Strategy

In order to help organize and focus priorities for this collective effort, MIF has also issued a set of

## Core Principles

promoting best practices within the LAC remittance market.





# Challenges Ahead and MIF Strategy

These Core Principles  
are aimed at:

Remittances Institutions

Public Authorities

Civil Society



# Challenges Ahead and MIF Strategy

IMPROVE  
TRANSPARENCY

PROMOTE FAIR  
COMPETITION AND PRICING

APPLY APPROPRIATE  
TECHNOLOGY

SEEK PARTNERSHIPS  
AND ALLIANCES

EXPAND FINANCIAL  
SERVICES

**Core  
Principles**

DO NO HARM

IMPROVE DATA

ENCOURAGE FINANCIAL  
INTERMEDIATION

PROMOTE FINANCIAL  
LITERACY

LEVERAGE  
DEVELOPMENT IMPACT

SUPPORT SOCIAL AND  
FINANCIAL INCLUSION



# Challenges Ahead and MIF Strategy

## International Partnerships

The World Bank and BIS have convened an international group of Central Banks, international and other development organizations to adopt and develop General Principles for International Remittances

Will create service standards and principles for consumer protection, transparency and market behavior



# Challenges Ahead and MIF Strategy

**The European Union** has developed new approach to regulating remittance transfers

- This creates a category of payment institutions to whom would be issued a single EU “passport” to operate in the internal market - therefore increasing competition
- Also regulates information to be provided with credit transfers





# Challenges Ahead and MIF Strategy

Governments, International organizations and other institutions must design their programs in order to develop and support policies and programs to help increase the multiplier effect of remittances.

However one central principle should be in mind:

**“It’s their money” .**

If these efforts are successful, transnational families will have more money available for their own purposes, and they will be empowered with more options in using those resources.



# MIF Projects and Initiatives

To date MIF pipeline of projects is composed of 23 projects totaling US\$ 225 million (US\$62 million in MIF technical assistance and US\$ 163 million in local counterpart.)  
Projects are classified in 3 categories.

1

**Regulatory  
Framework  
Reporting Process  
(Public Sector)  
Regional Initiatives**

2

**Fin. Intermediation  
Securitization &  
Housing**

- Argentina
- Dominican R
- Ecuador
- Guatemala
- Jamaica
- Mexico
- Peru
- Regional Projects

3

**Productive  
Investment of  
migrant Capital**

- Brazil
- Peru
- Mexico



# MIF Projects: Examples

## Regulatory Framework & Reporting Process

### *Regional Program*

#### Improving Central Bank Reporting and Procedures (CEMLA)

**Objective:** improve and/or implement procedures for the statistical measurement of remittances in central banks. .

**Partner:** *Centro de Estudios Monetarios Latinoamericanos*

**Activities:** Work with 23 LAC central Banks to harmonize reporting methodologies and promote better diffusion of information in the remittance market.



# MIF Projects: Examples

## Financial Intermediation Securitization & Housing

### *Regional Program*

Strengthening Microfinance Institutions through Remittance Transfers

**Objective:** link remittances sent from the U.S. with microfinance institutions in LAC.

**Partner:** Centro Acción / Acción Internacional

**Activities:** promote the participation of microfinance institutions (MFIs) in the delivery of remittances as a way to reduce transfer costs and increase the access of recipient household to financial services.





# MIF Projects: Examples

## Ecuador

### Promoting Migrant Remittances from Spain

**Objective:** Support *Banco Solidario*, a leading regulated microfinance institution that entered the remittances market, to receive remittances from Spanish Credit Unions.

**Partners:** Banco Solidario (Ecuador) CECA (SPAIN)

**Activities:** finance technical infrastructure, training and marketing support needed to establish partnership with Spanish Credit Unions.



# MIF Projects: Examples

## Mexico

### Housing Finance Facilitation for Remittance Recipients

**Objective:** increase the efficiency of the Mexican mortgage system and facilitate its expansion to the medium income level population, especially in areas affected by migration, and promote at the same time the housing market.

**Partner:** *La Sociedad Hipotecaria Federal (SHF)*

**Activities:** promote activities linked with mortgage creation from commercial banks (consumer literacy, promotion of new ways to link migrant remittances from the U.S. with mortgages financed by their families in Mexico.)



# MIF Projects: Examples

## Productive Investment of migrant Capital

### *Brazil*

#### Venture Capital Fund for Returning Entrepreneurs from Japan

**Objective:** Creation of the Brazilian Remittance Fund project to promote entrepreneurial activities by those Brazilian temporary workers overseas - or *dekassegui* - who desire to start businesses upon their return to Brazil.

**Partner:** SEBRAE - Banco do Brasil



# MIF Projects: Examples

## Mexico

### Working with Hometown Associations to Promote Investment of Remittances

**Objective:** Promote productive activities of mostly agribusiness-related economic groups established primarily by female workforce in the migration-affected rural areas of Mexico

**Partner:** *Fundación de Productividad en el Campo (FDPC)*

**Activities:** Address the lack of business skills, market and information access, and critical seed capital financing in rural communities in the states of Guerrero, Oaxaca, and Michoacán.





# Areas of growing focus

- **Technology** - opening new possibilities to lower costs and offer a wider range of financial services
- **Housing** - mobilize savings and turn earnings into equity
- **Securitize** remittance flows to create new source of lower cost and longer term capital
- **Research impact of gender** - women make up half of remittance senders worldwide and most heads of remittance-receiving households



# Areas of growing focus

In addition to its work with microfinance, MIF is targeting two additional areas for leveraging remittance flows:

1. Housing Finance; and
2. Securitization of Remittance Flows.



# Housing Finance

Remittance backed **low-income mortgages** can help migrants pay for homes of relatives or for their own use.

The reliable flow of remittances can help transnational families **save** the required **downpayment** and **build their credit records**, expanding the range of financial products and services available to them.

In addition, households that receive remittances can access formal financing, if they are able to **document their total income** - including remittances - to acquire a house (**expanding the financial frontier**).



# Housing Finance II

In acquiring a house, the migrant turns capital flows into equity. This in turn enhances access to credit through the availability of collateral.

Remittance backed housing mortgages tend to concentrate in low-income housing social segments and rural areas.

The migrant target population increases its financial literacy due to its exposure to financial intermediaries and services.

By increasing the size of the housing market, migrant flows also help develop local capital markets.





# Housing Finance III

MIF's projects will target the following areas:

- **Financial Literacy** of transnational families;
- **Joint-ventures and partnerships** between financial institutions at both ends of the migration; and
- **Financial support**
  - (i) long-term financing in either US\$ or local currencies; and
  - (ii) incentives to promote innovation and/or financial inclusion



# Housing Finance IV

## Pipeline on Housing Finance:

Technical Assistance to Sociedad Hipotecaria Federal (Mexico) to target unattended transnational families and deepen local capital markets through mortgage-backed securities (Q1 2005);

Potential line of credit to develop low-income mortgage market for remittance recipients in Guatemala;

Potential first US\$ denominated mortgage for migrants living in the USA acquiring property in Mexico/Central America; and

Potential Euro denominated Housing Loan for Andean migrants living in Europe.



# Securitization of Remittances

There have been 38 securitized remittance bonds issued in LAC over the past ten years, all in Brazil, Mexico and El Salvador.

The MIF will attempt to bring this instrument to other countries of the region that have **sub-investment grade ratings**.

These projects will enable local financial institutions to **access long term funds and on-lend them to their client base, including recipients of remittances**.

MIF will **leverage its investment through financial institutions**: the on-lending should be several multiples of MIF's investment and to MIF's target market (e.g., SMEs and microfinance.)



# Securitization of Remittances II

In order to support the developmental impact of securitization and to help the recipients of remittances, the MIF will issue a set of key standards promoting best practices within the LAC securitized remittance market.





# Securitization of Remittances III

## Pipeline on Remittance-backed Investments:

- Securitized bond in Jamaica to support long term loans to SMEs in Jamaica.

- Long term subordinated loans backed by the flow of remittances to banks in Guatemala and Honduras. Both loans will support on-lending to SMEs and remittance senders and recipients.



1300 New York Av. NW  
Washington D.C. 20577  
Pedrodv@iadb.org  
+(1) 202 942-8171

[www.iadb.org/mif](http://www.iadb.org/mif)



Inter-American Development Bank  
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